

## Islamic Finance Terminology

Terms	Definition
<b>Bai` Bithaman Ajil (BBA)</b>	A contract that refers to the sale and purchase transaction for the financing of assets on a deferred and an installment basis with a pre-agreed payment period. The sale price will include a profit margin.
<b>Bai` al-`Inah</b>	A contract, which involves the sale and buy back transaction of assets by a seller. A seller will sell the asset to a buyer on a cash basis. The seller will later buy back the same asset on a deferred payment basis where the price is higher than the cash price. It can also be applied when a seller sells an asset to a buyer on a deferred basis. A seller will later buy back the same asset on a cash basis at a price, which is lower than the deferred price.
<b>Bai` al-Istijrar</b>	A contract between the client and the supplier, whereby the supplier agrees to supply a particular product on an ongoing basis, for example monthly, at an agreed price and on the basis of an agreed mode of payment.
<b>Bai` al-Dayn</b>	A transaction that involves the sale and purchase of securities or debt certificates that conforms with Shariah. Securities or debt certificates will be issued by a debtor to a creditor as evidence of indebtedness.
<b>Bai` al-Muzayadah</b>	An action by a person to sell his asset in the open market, which is accompanied by the process of bidding among potential buyers. The asset for sale will be awarded to the person who has offered the highest price. In other words, it is known as the sale and purchase transaction based on tender.
<b>Bai` al-Salam</b>	A contract whereby the payment is made in cash at the point of contract but the delivery of asset purchased will be deferred to a pre-determined date.
<b>Bai` al-Wafa'</b>	A contract with the condition that when the seller pays back the price of the goods sold, the buyer returns the goods to the seller.

<b>Dhaman</b>	A contract of guarantee whereby a guarantor shall underwrite any claim and obligation that should be fulfilled by an owner of the asset. This concept is also applicable to a guarantee provided on a debt transaction in the event a debtor fails to fulfill his debt obligation.
<b>Gharar</b>	<p>Gharar is an element of deception either through ignorance of the goods, the price, or through faulty description of the goods, in which one or both parties stand to be deceived through ignorance of an essential element of exchange. As an example, gambling is a form of Ghaar because the gambler is ignorant of the result of the gamble.</p> <p>Gharar is divided into three types, namely ghararfahish (excessive), which vitiates the transaction, gharar yasir (minor), which is tolerated and ghararmutawassit (moderate), which falls between the other two categories. Any transaction can be classified as forbidden activity because of excessive gharar.</p>
<b>Halal</b>	Lawful; permitted by Shariah
<b>Haq Maliy</b>	Haq maliy are rights on the financial assets. Examples of such rights are haq dayn (debt rights) and haq tamalluk (ownership rights)
<b>Hibah</b>	A gift awarded to a person.
<b>Hiwalah</b>	A contract that allows a debtor to transfer his debt obligation to a third party.
<b>Ibra'</b>	An act by a person to withdraw his rights i.e. his rights to collect payment from a person who has the obligation to repay the amount borrowed from him.
<b>Ijarah</b>	A manfaah (usufruct) type of contract whereby a lessor (owner) leases out an asset or equipment to his client at an agreed rental fee and pre-determined lease period upon the aqad (contract). The ownership of the leased equipment remains in the hands of a lessor.
<b>Ijarah Thumma Bai`</b>	A contract which begins with an Ijaah contract for the purpose of leasing the lessor's asset to the lessee. Consequently, at the end of the lease period, a lessee will purchase the asset at

	an agreed price from a lessor by executing a purchase (Bai`) contract.
<b>Istisna`</b>	A purchase order contract of assets whereby a buyer will place an order to purchase an asset that will be delivered in the future. In other words a buyer will require a seller or a contractor to deliver or construct the asset that will be completed in the future according to the specifications given in the sale and purchase contract. Both parties to the contract will decide on the sale and purchase prices as they wish and the settlement can be delayed or arranged based on the schedule of the work completed.
<b>Ittifaq Dhimni</b>	This is an external agreement, which must be reached before the contract can be concluded to allow for the bidding process (Bai` al-Muzayadah) to take place.
<b>Ji`alah</b>	Contract of reward; a unilateral contract promising a reward for a specific act or accomplishment.
<b>Kafalah</b>	It has the same meaning as Dhaman.
<b>Khilabah</b>	A form of fraud, either in word or deed by a party to the trading contracts with the intention of inducing the other party into making a contract. This is prohibited according to Shariah.
<b>Khiyanah</b>	Refers to deception by not disclosing the truth or breaching an agreement in a hidden way. This is prohibited according to Shariah.
<b>Mal</b>	Something that has value and can be gainfully used according to Shariah.
<b>Maisir</b>	Any activity that involves betting whereby the winner will take all the bets and the loser will lose his bet. This is prohibited according to Shariah.
<b>Mudharabah</b>	A contract, which is made between two parties to finance a business venture. The parties are a rabb al-mal or an investor who solely provides the capital and a mudarib or an entrepreneur who solely manages the project. If the venture is profitable, the profit will be distributed based on a pre-agreed ratio. In the event of a business

	loss, the loss shall be borne solely by the provider of the capital.
<b>Murabahah</b>	A contract that refers to the sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase can be settled either on a deferred lump sum basis or on an instalment basis, and is specified in the agreement.
<b>Musharakah</b>	A partnership arrangement between two parties or more to finance a business venture whereby all parties contribute capital either in the form of cash or in kind for the purpose of financing the business venture. Any profit derived from the venture will be distributed based on a pre-agreed profit sharing ratio, but a loss will be shared on the basis of equity participation.
<b>Muqasah</b>	Debt settlement by a contra transaction.
<b>Qabdh</b>	Qabdh means possession, which refers to a contract of exchange. Generally, qabdh depends on the perception of 'urf or the common practices of the local community in recognising that the possession of a good has taken place.
<b>Qardh Hasan</b>	A contract of loan between two parties on the basis of social welfare or to fulfill a short-term financial need of the borrower. The amount of repayment must be equivalent to the amount borrowed. It is however legitimate for a borrower to pay more than the amount borrowed as long as it is not stated or agreed at the point of contract.
<b>Rahn</b>	An act whereby a valuable asset is used as collateral for a debt. The collateral will be utilised to settle the debt when a debtor is in default.
<b>Riba</b>	An increase, which in a loan transaction or in exchange of a commodity, accrues to the owner (lender) without giving an equivalent counter value or recompense in return to the other party. It covers interest both on

	commercial and consumer loans, and is prohibited according to Shariah.
<b>Sarf</b>	A buying and selling of currencies.
<b>Suftajah</b>	A credit instrument issued to a creditor to enable him to use or cash it at another predetermined venue and at the future date.
<b>Sukuk</b>	A document or certificate, which evidences the undivided pro-rata ownership of underlying assets - the Sak (singular of Sukuk) is freely tradable at par, premium or discount.
<b>Shariah</b>	Islamic law, originating from the Qur`an (the holy book of Islam), as well as practices and explanations rendered by the prophet Muhammad (pbuh) and ijtihad of ulamak (personal effort by qualified Shariah scholars to determine the true ruling of the divine law in a subject matter on which the revelation is not explicit).
<b>Tadlis al-`aib</b>	Refers to the activity of a seller intentionally hiding the defects of goods. This activity is prohibited according to Shariah principles.
<b>Takaful</b>	This is a form of Islamic insurance based on the principle of ta`awun or mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of a loss by one of its members. Takaful is similar to mutual insurance in that members are the insurers as well as the insured.
<b>Tanajush</b>	Refers to a conspiracy between a seller and a buyer wherein the buyer is willing to purchase the goods at a higher price. This is done so that others would rush to buy the goods at a higher price, resulting in the seller obtaining a huge profit. This transaction is not permissible in Islam.
<b>Ta`widh</b>	Penalty agreed upon by the contracting parties as compensation that can rightfully be claimed by the creditor when the debtor fails or is late in meeting his obligation to pay back the debt.
<b>Ujrah</b>	Financial payment for the utilisation of services or manfaat. In the context of today`s economy,

	it can be in the form of salary, wage, allowance, commission and the like.
<b>`Urbun</b>	A deposit or earnest money which forms part payment of the price of goods or services paid in advance, but will be forfeited in the event the transaction is cancelled. The forfeited money is considered as hibah (gift).
<b>'Uqud al-Mu'awadat</b>	Contracts of exchange.
<b>'Uqud al-Tabarruat</b>	Charitable contract.
<b>'Uqud al-Ishtirak</b>	Contract of partnership
<b>Wakalah</b>	A contract, which gives the power to a person to nominate another person to act on his behalf as long as he is alive based on the agreed terms and conditions.
<b>Wadiah Yad Dhamanah</b>	Goods or deposits, which have been deposited with another person, who is not the owner, for safekeeping. As wadiah is a trust, the depository becomes the guarantor and, therefore guarantees repayment of the whole amount of the deposits, or any part thereof, outstanding in the account of depositors, when demanded. The depositors are not entitled to any share of the profits but the depository may provide returns to the depositors as a token of appreciation.
<b>Zakat</b>	A tax, which is prescribed by Islam on all persons having wealth above a certain amount and that, is fixed by the Shariah. According to the Islamic belief Zakat purifies wealth and souls. The objective is to take away a part of the wealth of the well-to-do and to distribute it among the 8 categories stated in the Quran.

*Source: IOSCO Islamic Capital Market Task Force*